

The following presentation is to be used only as an aid to illustrate general tax concepts, but it does not address every situation.

The Revenue and Taxation Code, regulations, court decisions and other applicable laws generally control the decision making process. Please contact Board of Equalization staff for a comprehensive response to your specific questions.

Every person, for example an individual, a firm, a partnership, or a corporation, engaged in the business of selling or leasing tangible personal property must obtain a permit from the State Board of Equalization. This includes wholesalers as well.

A seller's permit allows you to: make sales in California and purchase resale inventory without payment of tax. A seller's permit does NOT allow you to purchase items for your own use without payment of tax.

You can easily obtain an application online or by visiting any local Board office.

When you apply for your Seller's Permit, you will need to have certain business information such as your business bank account details and your estimated income. In addition, you will need personal identification documents such as a valid driver's license and your social security card. If you do not have these identification documents, some substitute documents are also accepted. Please call the Taxpayer Information Section at 800-400-7115 for details.

There is no charge to obtain a Seller's Permit however a security deposit may be required. When you apply by mail, you will typically receive your permit within 7-14 days. If you apply in person we may be able to issue your permit the same day.

You must e-file a sales and use tax return and pay any sales and use tax due on your sales and purchases for each period. If you have made no sales during that period you still need to file a return showing zero sales. Your tax return is due after the close of the reporting period. For example, if your period closes on June 30, you must file and pay by July 31.

A sale is any transfer of title or possession, of tangible personal property for consideration, regardless of when payment is received.

Sales tax is imposed upon the retailer (the seller) on the retail sale of tangible personal property in the State of California. As a retailer, even if the customer does not give an amount as “tax” for the purchase, you are still liable for the tax.

Generally, your gross receipts include the total amount you receive for the sale, valued in money, or other consideration, such as a trade-in value or barter. This also includes charges for fabrication labor or services that are part of the sale of your product.

The Sales and Use Tax Law presumes that every sale of tangible personal property in California is subject to tax unless it is an exempt sale or transaction. Any exempt transaction or sale must be supported by proper documentation, which will be discussed in more detail later.

Some common examples of exemptions and deductions are listed on this slide. There are numerous other exemptions. If you are in doubt, please contact the Taxpayer Information Section at 800-400-7115 or check the website for more information.

As a retailer you must maintain your accounting records for at least four years. The records that we require include, but are not limited to, the normal books of account, records of sales and purchases, documentation to support claimed exemptions, and schedules or working papers you used in preparing your tax returns. Also save any other records you use in your business that support your sales.

The use tax is imposed on the purchaser for items purchased from an out-of-state retailer without payment of tax that are consumed in California. For instance, if you bought a computer for your business here in California, you would pay sales tax. The same holds true if you bought that same computer from a retailer in New York for your business here in California. If you did not pay any tax to the retailer, you owe the USE tax on the cost of the computer. The Use tax rate is the same as the sales tax rate. Out-of-state retailers “engaged in business” in California must collect and pay use tax on items sold to Californians. For example, if that New York retailer had a sales person who travels to California to solicit its computer sales, the New York retailer is considered to be engaged in business in California and would have to collect use tax from its California customers.

Using our New York computer example, if you purchase a computer for your business and you did not pay tax on that purchase, you owe the Use tax on the purchase price. If that computer was purchased as part of your inventory as a computer retailer, and you decide to use it yourself, you will owe the use tax based on the cost.

If you are a retailer you will report on your Sales and Use Tax Return. If you are a consumer, you will report the Use Tax due on your Use Tax Return.

The new Use tax registration requirement enacted by AB4x-18, requires that persons defined on the next slide register with the Board of Equalization and report their use tax due on April 15<sup>th</sup> for the previous calendar year.

A qualified purchaser is a person who receives at least \$100,000 in gross receipts from business operations per calendar year, is not required to hold a seller's permit, is not required to be registered pursuant to Revenue and Taxation Code Section 6226, is not a holder of a use tax direct payment permit as described in Revenue and Taxation Code Section 7051.3, and is not otherwise registered with BOE to report use tax. An example of this might be a law firm, a CPA firm or any type of service business that does not sell tangible personal property or is not otherwise registered with the BOE.

The In-State Voluntary Disclosure program has been set-up to allow people who owe use tax to come forward and register. In so doing, they will limit their liability to 3 years. Without the program, the limitation period could be up to 10 years. For more information on this program, please see our website.

There are several components that make up Sales and Use tax. The State tax is currently at 7%, County at .25 percent, Local at 1% and District taxes which can be up to 1.50%. District taxes are voter approved special taxes in certain California counties and cities or defined districts. Sometimes there are several district taxes in one area. These taxes can create a sales and use tax rate over 8.25% in some cities or counties. The BOE website contains a comprehensive list of all city and county Sales and Use tax rates.

District taxes are a component of the Sales and Use tax. They are applicable when a retailer has a location in a district that imposes a district tax, if the retailer physically enters the district to deliver an item, or if the retailer's sales people physically enter the district to solicit sales, then the district tax applies. If the retailer does not collect an amount as tax, then district use tax may apply to that sale, and this is to be reported by the purchaser.

It is extremely important to keep the BOE informed of any changes in your business, such as ownership and/or mailing address, including email changes. You are responsible for the correct payment of sales tax regardless of whether you receive sales tax reimbursement from your customer.

The BOE provides a wealth of information and services online. Online you will be able to verify seller's permit numbers, watch tutorials, find classes and seminars scheduled in your area, read publications specific to your business type, get answers to frequently asked questions, locate your local Board office, learn about the latest tax news, process your credit card payment, find useful links to other websites, and sign up for email notifications for a broad variety of topics.

If you would like one-on-one assistance to ensure your record keeping system is adequate, please contact your local Board office to set-up an appointment with a taxpayer educational consultant. The staff consultant will determine whether your records are adequate and if you are reporting your sales correctly. This program is strictly voluntary but is quite useful for many new and existing business owners.

In addition to online services, BOE has a taxpayer information call center with staff that can answer your questions. The call center number is 800-400-7115 and is open Monday through Friday from 8 a.m. to 5 pm. Further, there is a 24 hr fax back service which you can use to request commonly used forms and publications.

If you have exhausted all other avenues to resolve your tax related complaint or if you would like to know more about your rights under the law, you may contact the BOE's Taxpayers' Rights Advocate office at 888-324-2798.

The Sales and Use Tax Law is complex. Should you have a specific tax question, we encourage you to write to us. By putting your questions in writing, you will be protected from owing additional tax, interest, and penalties, should we furnish you with erroneous advice. You are not afforded the same protections if you receive the information orally, in person, or over the telephone.

Thank you for listening to this tutorial. We wish you success in your business venture.